

**CALIFORNIA ISO**California Independent
System OperatorJim Detmers
Vice President, Grid Operations*Approved*
Item 17

September 2, 2004

Members of the Board
San Diego Regional Water Quality Control Board
9174 Sky Park Court, Suite 100
San Diego, CA 92123-4340

RE: Tentative Order No. R9-2004-0154
Waste Discharge Requirements For Duke Energy South Bay, LLC
South Bay Power Plant San Diego County

Dear Members of the Board:

It has come to our attention that Tentative Order No. R9-2004-0154, if adopted as the final order of the Board, could lead to the closure of the South Bay Power Plant due to non-compliance with the proposed copper concentration discharge allowance. The purpose of the letter is to advise you, on behalf of the California Independent System Operator Corporation ("ISO"), of the important reliability role served by, and the continued reliability need for, the South Bay Power Plant.

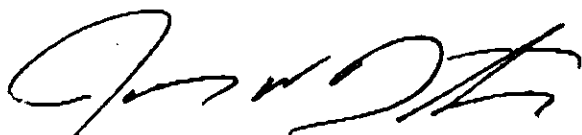
The mission of the ISO is to operate the ISO Controlled Grid safely and reliably. The ISO sets its reliability standards in compliance with regional and national requirements (Western Electricity Coordinating Council and North American Electric Reliability Council, respectively). The ultimate goal of these standards is to ensure continuous supply of electricity and to avert the risk of blackouts.

Within these reliability standards, are reliability criteria pursuant to which the ISO determines Reliability Must-Run (RMR) requirements and designates specific generation units for RMR contracts. RMR requirements establish the amount of generation within a local area, such as the San Diego Area, that is required, in conjunction with the electric transmission system, to assure reliable load serving capability. The South Bay Power Plant is currently subject to an RMR contract. In 2004, 1888 MW of generation within the San Diego Area, including the South Bay Power Plant, was required to maintain reliable load serving capability. With load growth, 2019 MW of generation within the San Diego Area is required to meet 2005 RMR requirements. To address this 2005 RMR requirement, all generation presently under an RMR contract and three new generation units are being recommended for an RMR contract for 2005. Attachment 1 outlines the RMR requirements for 2005 and how we intend to meet them. The successful renewal of the water permit for the South Bay Power Plant is, thus, a critical component of maintaining reliable load serving capability within the San Diego Area.

The entire output (689 MW) of the South Bay Power Plant (Units 1, 2, 3, & 4) is under an RMR contract. If the output were no longer available, the reliability of the San Diego area would be at risk due to lack of sufficient resources within this area. Specifically, there are two combustion turbine (CT) generating units (92 MW) owned by Coral Energy and two CTs owned by National Energy & Gas Transmission, Inc. (84 MW) which are located within the San Diego Area which currently are not under an RMR contract. Even if it were possible to enter into

RMR contracts with the owners of the units, there would still be a very significant shortfall of up to 513 MW in meeting the electric load (4489 MW) projected within the San Diego Area in 2005. Without the South Bay Power Plant, it may be possible for up to 689 MW of customer load within San Diego to be dropped via a computer-operated system (Special Protection System) in the event of an outage of the 500 kV Southwest Power Link transmission line. If this is not possible, electric load in San Diego above 3800 MW, would not be served until new generation resources within San Diego, that are equal to the South Bay Units 1-4, are constructed and in operation. At this time, the next significant increase in generation resources within San Diego will be the Palomar Energy Project (546 MW) that is currently scheduled for operation by summer 2006.

Please feel free to contact me at (916) 351-2123 with any questions or concerns.

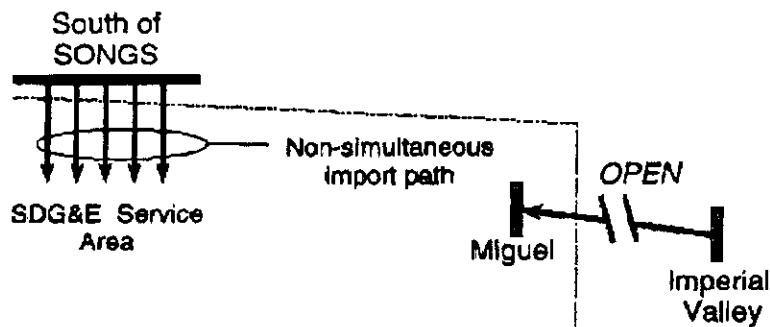


Jim Detmers
Vice President, Grid Operations
Acting Chief Operations Officer

cc: Randy Hickok, Duke Energy
Meg Rosegay, Pillsbury, Winthrop

Attachment 1**2005 San Diego Area Reliability Must-Run Requirements****Technical Review:**

The Reliability Must-Run (RMR) requirement in the San Diego area is described by the over-lapping outage of the Imperial Valley-Miguel 500 kV transmission line (N-1) and Encina generator unit # 5 (G-1 @ 329 MW) while staying within the South of San Onofre Substation import capability rating. That rating is 2500 MW with any segment of SWPL out of service. This Cal-ISO single contingency RMR limitation of an N-1 and G-1 does not allow the use of a Remedial Action Scheme to shed load. The total RMR requirement, to eliminate the current worst contingency in this pocket, is 2019 MW for year 2005.

Non-Simultaneous

Recommend Generator
Unit Designations For 2005

Generator	Capacity (MW)	Y	Y
El Cajon CT	13	Y	Y
Kearney 1	15	Y	Y
Kearney 2 - 2A	14	Y	Y
Kearney 2 - 2B	14	Y	Y
Kearney 2 - 2C	14	Y	Y
Kearney 2 - 2D	13	Y	Y
Kearney 2 - 3A	15	Y	Y
Kearney 2 - 3B	14	Y	Y
Kearney 2 - 3C	14	Y	Y
Kearney 2 - 3D	14	Y	Y
Miramar CT 1	17	Y	Y
Miramar CT 2	16	Y	Y
Encina 1	105	Y	Y
Encina 2	103	Y	Y
Encina 3	109	Y	Y
Encina 4	299	Y	Y
Encina 5	329	Y	Y
Encina 6	14	Y	Y
South Bay 1	145	Y	Y
South Bay 2	149	Y	Y
South Bay 3	174	Y	Y
South Bay 4	221	Y	Y
South Bay CT	13	Y	Y
Calpeak Border	49	N	Y
Calpeak El Cajon	49	Y	Y
Calpeak Escondido	49	N	Y
Coral Border 1	46	N	N
Coral Border 2	46	N	N
Rancho Olay	42	N	N
Rancho Escondido	42	N	N
MSEC	46	N	Y
Total	2203	1883	2027